5 Crowding out and economic growth – Part 2 — Answers

Answers

Work through these after you have tried the questions yourself.

2.1 when the government borrows heavily, it pushes up interest rates, which reduces private investment.
2.2 the boost to demand from government spending is partly cancelled by the fall in private investment caused by higher rates.
2.3 it shifts the curve outward (the economy can produce more).
2.4 more physical capital, more human capital (education/skills), and better technology.
2.5 it raises interest rates and crowds out private investment, and less investment means a smaller future capital stock and slower growth.